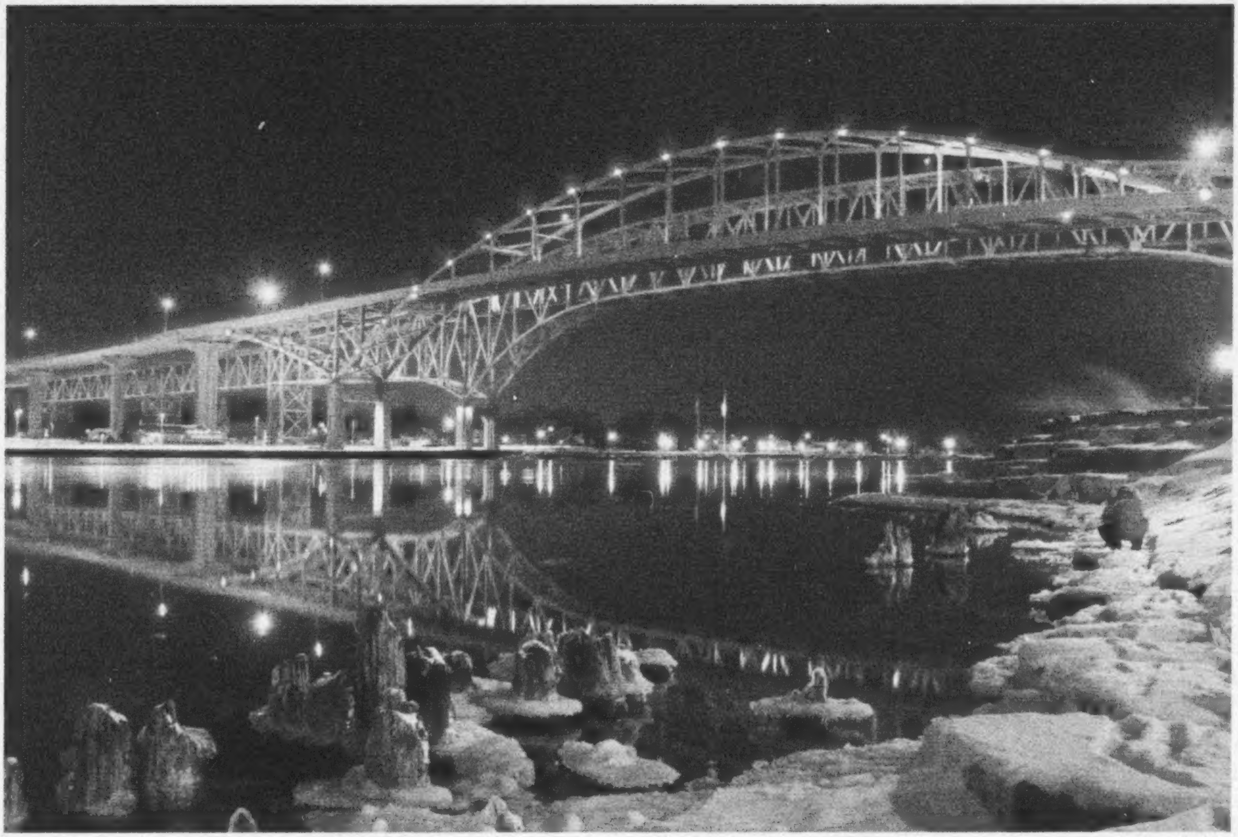
# Quarterly Financial Report

2nd Quarter
(Q2)
Unaudited
For the six
months ended
February 28, 2013



Blue Water Bridge Canada

Pont Blue Water Canada

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## 1.0 Background, Legislative Authority and Compliance

Blue Water Bridge Canada (BWBC) was created by a 1964 Act of Parliament (*Blue Water Bridge Authority Act)* where *"it is deemed appropriate that an international bridge providing facilities for the carriage of highway traffic between Canada and the United States be operated on a joint international basis by a public authority having equal representation of members appointed from each of the two countries, and having power to levy tolls to meet the costs of operating and maintaining such a bridge"*. At that time, in anticipation of such a merger to occur sometime in the future, the Canadian legislation initially established a corporation to be known as the Blue Water Bridge Authority to own (under federal control), operate and maintain the Canadian half of the highway toll bridge over the St. Clair River between Point Edward, Ontario and Port Huron, Michigan. Similar legislation exists with the State of Michigan authorizing the American "Authority" to operate in the same way.

In accordance with the provisions of a 1928 Special Act of Parliament authorizing construction and operation of the Blue Water Bridge, ownership of the Canadian portion reverted, at no cost or expense, to the Federal Government from the State of Michigan in 1962. The Michigan Department of Transportation (MDOT) owns, operates and maintains the U.S. half of the bridge.

BWBC qualifies as a "parent Crown corporation" under the *Financial Administration Act* and regulations. As such, BWBC is required to submit an annual corporate plan outlining its business activities and investments and its objectives for the relevant period and the strategy to achieve such objectives. The *Financial Administration Act* (Canada) also requires that BWBC prepare and file annual operating and capital budgets, each of which requires the approval of the Treasury Board on the recommendation of the Minister of Transport, Infrastructure and Communities. BWBC is obliged to prepare annual reports including audited financial statements for submission to Parliament via the Minister of Transport, Infrastructure and Communities.

The *Blue Water Bridge Authority Act*, and the *Customs Act*, section 6, require BWBC to provide, equip and maintain free of charge adequate buildings or other facilities for the proper interviewing, examination and detention of persons and goods by customs officers.

BWBC has taken active measures to ensure compliance with the *Official Languages Act* and continues to implement its obligations with the Treasury Board of Canada Secretariat to ensure compliance with the *Federal Identity Program*. As part of that compliance, The President of the Treasury Board and the Minister of Transport, Infrastructure and Communities agreed on an applied title for the organization – from Blue Water Bridge Authority to Blue Water Bridge Canada – effective September 2007.

BWBC has operational relationships with: Ontario provincial authorities and particularly with the Ministry of Transportation; the Ontario Provincial Police, and; local municipalities, specifically Point Edward, Ontario upon which the bridge's Canadian assets are sited and the neighbouring City of Sarnia.

Pursuant to the *Blue Water Bridge Authority Act*, BWBC is limited to charging tolls which provide for current revenues in an amount sufficient to pay BWBC's reasonable current costs; to establish prudent reserve funds; to provide or replenish sinking funds in respect of outstanding bonds, and; to pay other expenses properly incurred by BWBC in its performance of duties under the Act. The *Canada Transportation Act* regulates the means of setting and publishing toll rates.

## 2.0 Q2 Fiscal 2013 in Review

This quarterly financial report has been prepared in accordance with the requirements of the Financial Administration Act and the Standard on Quarterly Financial Reports for Crown Corporations issued by the Treasury Board Secretariat.

This quarterly financial report assesses the operations and financial status of BWBC for the second fiscal quarter ended February 28, 2013. It should be read in conjunction with the interim unaudited condensed financial statements and supporting notes included herein and the annual audited financial statements included in BWBC's 2012 Annual Report. Unless otherwise indicated, all amounts are expressed in Canadian dollars.

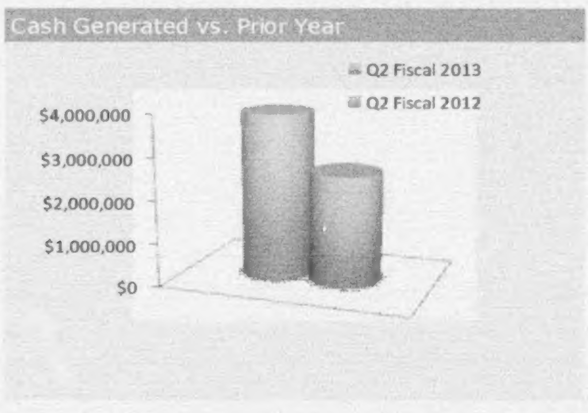
### 2.1 Summary of Results

BWBC reports net loss of $307 thousand for the six months ended February 28, 2013 (Q2) compared to a net loss of $2.8 million for the six months ended February 29, 2012. Q2 results have been strong with traffic volumes increasing by 3.0% for cars and 3.9% for trucks compared to Q2 2012.

BWBC is on target for most revenue items in comparison with the Corporate Plan. Truck traffic increased slightly more than expected ($250k or 4% favourable). Duty Free revenue improved due to the combined increase in truck and car traffic ($53k or 6.5% favourable). Also, Currency Exchange revenue increased more than expected due to the increased car traffic and the volume of customer transactions ($138k or 23% favourable).

Compared to the Corporate Plan on the expense side, BWBC is significantly below forecast by 21.5% or $1.6 million primarily due to maintenance ($1.7 million or 68.2% favourable) and depreciation expenses ($1.1 million or 22% favourable). Maintenance expenses have a favourable variance due to the deferral of paving the bridge spans within the current fiscal year to fiscal 2014. Depreciation expense has decreased due to the change of accounting policy for the Blue Water Bridge Corporate Centre (BWBCC) wherein the determination was made that the BWBCC should depreciate over 70 years straight-line versus 5% diminishing balance basis.

Both toll revenue and cash generated from operations have increased significantly over the same period of the prior year primarily due to the increase in traffic and the full toll rate adjustments as noted above. A comparison of cash generated from operations is provided below.



For BWBC to meet its debt covenants, the organization needs to maintain a gross debt service coverage ratio (GDSCR) greater than 1.25 and a debt service coverage ratio (DSCR) greater than 1.00. As at February 28, 2013, the GDSCR was 4.15 and the DSCR was 1.33. At February 29, 2012, the GDSCR was 4.08 and the DSCR was 1.41. The increase in the GDSCR is mainly attributed to an increase in BWBC's cash position. The decrease in the DSCR is mainly attributed to a one-time payment to Michigan Department of Transportation of $1.7 million for customs booths at the end of fiscal 2012 since these ratios are determined based on a rolling 12-month period.

### 2.2 Outlook

BWBC will continue to assess its organization to identify new operational improvements and cost containment measures. Such efforts include: evaluating the effectiveness of its current organizational structure; improving the efficiency and customer responsiveness of its ongoing operations, and; working with its bridge co-owner, the Michigan Department of Transportation, to jointly plan and implement common maintenance and development projects in a more cost effective manner.

## 3.0 Discussion of Financial Results

Period over Period Comparisons

*For the six months ended February 28, 2013*

Q2 2013 and Q2 2012 totals are expressed in accordance with International Financial Reporting Standards (IFRS).

### Revenues

***Toll Revenue*** increased by $978k or 11.9%. Truck Volumes increased by 12,487 or 3.9% ($659k increase) and car volumes increased by 25,451 or 3% ($144k increase). Also, there was a full toll adjustment in January 2013. The US dollar strengthened over the Canadian dollar from prior year ($170k increase).

***Rental Revenue*** increased by $60k or 4.7% due to an increase in sales at the Duty Free Store which affects the variable rent.

***Currency Exchange Revenue*** increased by $118k or 17.7% primarily due to the amount of customer transactions ($101k increase). Foreign exchange effect on cash balances also increased ($19k increase).

***Interest Income*** decreased due to the redemption of investments for cash flow purposes ($15k unfavourable). Bank account interest income also decreased although bank account balances increased ($14k unfavourable) due to the need for cash in the USD operating account to finance the $1.7 million contribution to Michigan Department of Transportation. Currently, BWBC does not receive interest income on the US bank account.

## Expenses

| | Q2 Fiscal 2013 | Q2 Fiscal 2012 |
|---|---|---|
| General & Administrative | $843,756 | $935,180 |
| Maintenance | $809,020 | $900,455 |
| Salaries | $2,117,162 | $2,007,516 |
| Benefits | $921,038 | $728,122 |
| Interest Expense | $2,938,651 | $3,098,614 |
| Depreciation | $4,019,631 | $5,389,210 |

| Total Expenses | Q2 Fiscal 2013 | Q2 Fiscal 2012 |
|---|---|---|
| | $11,649,258 | $13,059,097 |

***General and Administrative Expenses:***
G&A dropped by 9.8% mainly due to a decrease in legal fees ($60k) with the collective bargaining agreement being signed in fiscal 2012. Also consultant fees decrease this year ($31k) due to an HST finder's fee.

***Maintenance Expenses:***
Maintenance Expenses decreased by 10.2% due to timing of bridge inspections ($91k favourable) and due to Span 1 abutment repairs in Fiscal 2012 ($64k Favourable).

***Salaries Expenses:***
Salaries expenses have increased by 5.4% due to a few reasons. Union wages increased 2.75%. Also, administration added 2 additional employees: a Human Resource Specialist and an IT Support Analyst. Finally, with phase 1 of the master capital plan complete, fewer capital projects have been ongoing, therefore, only 25% of salaries were capitalized to projects in Q2 2013 compared to 44% in Q2 2012.

***Benefit Expenses:***
Benefit Expenses increased due to employee future benefits being higher in 2013 but this will offset at the end of the year with the 2012 yearend accrual ($193k increase).

***Interest Expense:***
Interest expense decreased due to the diminishing balances of the bond principal and the $15 million credit facility.

***Depreciation Expense:***
Depreciation expense decreased mainly due to a change in accounting policy for the Blue Water Bridge Corporate Centre to straight-line 70 years from 5% diminishing balance.

## 3.1 Risk Analysis

To date, there are no new changes in our risk analysis from those identified in the 2012 Annual Report. See the 2012 Annual Report for more detail.

## 3.2 Significant Changes

To date, there are no new significant changes from the 2012 Annual Report. See the 2012 Annual Report for more detail.

## 4.0 BWBC Interim Unaudited Condensed Financial Statements

For the six months ended February 28, 2013

# Quarterly Financial Statements
# (Interim Unaudited)

### 4.1 Statement of Management Responsibility

Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and for such internal controls as management determines is necessary to enable the preparation of quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the quarterly financial statements.

John Elliott
Chief Operations Officer

Point Edward, Ontario
Canada

April 30, 2013

## 4.2 Statement of Financial Position

| (Unaudited)<br>(Canadian $)<br>As at | | February 28, 2013<br>Year-to-date | | August 31,<br>2012 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current** | | | | |
| Cash | $ | **10,398,435** | $ | 9,314,854 |
| Investments | | **32** | | 32 |
| Trade and other receivables | | **585,287** | | 421,955 |
| Prepaid expenses | | **194,592** | | 372,045 |
| | | **11,178,346** | | 10,108,886 |
| **Non-current** | | | | |
| Investments | | **1,193,300** | | 1,167,581 |
| Property, plant and equipment | | **211,113,580** | | 214,245,692 |
| Intangible assets | | **56,697** | | 108,703 |
| Investment property | | **15,678,811** | | 16,055,570 |
| Restricted assets | | | | |
| Debt service reserve fund | | **3,587,872** | | 3,531,188 |
| Operating and maintenance contingency fund | | **2,721,893** | | 2,286,834 |
| | | **234,352,153** | | 237,395,568 |
| **Total assets** | $ | **245,530,499** | $ | 247,504,454 |
| **Liabilities** | | | | |
| **Current** | | | | |
| Trade and other payables | $ | **3,199,820** | $ | 4,020,119 |
| Holdbacks payable | | **137,295** | | 118,990 |
| Deferred revenue | | **2,473,194** | | 1,971,245 |
| Current portion of bank loan payable | | **396,888** | | 390,206 |
| Current portion of bonds payable | | **3,553,170** | | 3,440,690 |
| | | **9,760,367** | | 9,941,250 |
| **Non-current** | | | | |
| Employee benefits | | **6,084,369** | | 5,775,037 |
| Deferred revenue | | **208,000** | | - |
| Bank loan payable | | **14,006,481** | | 14,204,560 |
| Bonds payable | | **78,887,949** | | 80,693,106 |
| | | **99,186,799** | | 100,672,703 |
| | | **108,947,166** | | 110,613,953 |
| **Equity** | | | | |
| Retained earnings | | **136,583,333** | | 136,890,501 |
| **Total liabilities and equity** | $ | **245,530,499** | $ | 247,504,454 |

The accompanying notes form an integral part of the interim unaudited financial statements.

## 4.3 Statement of Comprehensive Income

| (Unaudited)<br>(Canadian $)<br>For the period ended | | Three months ended February 28, 2013 | | Three months ended February 29, 2012 | | Six months ended February 28, 2013 | | Six months ended February 29, 2012 |
|---|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | | |
| Tolls and services | $ | 4,457,560 | $ | 3,999,475 | $ | 9,203,757 | $ | 8,225,391 |
| Facility rentals | | 515,217 | | 515,644 | | 1,255,610 | | 1,199,233 |
| Currency exchange department | | 350,751 | | 267,946 | | 743,063 | | 625,444 |
| Interest and sundry | | 70,518 | | 84,327 | | 139,658 | | 171,972 |
| Gain on disposal of property, plant and equipment | | - | | 9,524 | | - | | 10,151 |
| | | 5,394,046 | | 4,876,916 | | 11,342,088 | | 10,232,191 |
| **Expenses** | | | | | | | | |
| Depreciation of property, plant and equipment | | 1,901,635 | | 2,659,817 | | 3,584,018 | | 5,118,635 |
| Interest on long-term debt | | 1,460,127 | | 1,548,261 | | 2,938,651 | | 3,098,614 |
| Human resources | | 1,576,003 | | 1,417,772 | | 3,038,200 | | 2,735,638 |
| Maintenance expenses | | 283,482 | | 414,098 | | 809,020 | | 900,455 |
| General and administrative | | 483,865 | | 541,222 | | 843,754 | | 935,180 |
| Depreciation of investment property | | 188,381 | | 62,058 | | 376,761 | | 191,051 |
| Depreciation of intangible assets | | 8,098 | | 39,762 | | 58,852 | | 79,524 |
| | | 5,901,591 | | 6,682,990 | | 11,649,256 | | 13,059,097 |
| **Comprehensive (loss) for the period** | $ | (507,545) | $ | (1,806,074) | $ | (307,168) | $ | (2,826,906) |

## Statement of Changes in Equity

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Retained Earnings, beginning of period** | $ | 137,090,878 | $ | 140,314,934 | $ | 136,890,501 | $ | 141,335,766 |
| **Comprehensive (loss) for the period** | | (507,545) | | (1,806,074) | | (307,168) | | (2,826,906) |
| **Retained Earnings, end of period** | $ | 136,583,333 | $ | 138,508,860 | $ | 136,583,333 | $ | 138,508,860 |

The accompanying notes form an integral part of the interim unaudited financial statements.

## 4.4 Statement of Cash Flows

| (Unaudited)<br>(Canadian $)<br>For the period ended | | Three months ended February 28, 2013 | Three months ended February 29, 2012 | Six months ended February 28, 2013 | Six months ended February 29, 2012 |
|---|---|---|---|---|---|
| **Cash Flows from operating activities** | | | | | |
| Comprehensive loss from operations | $ | (507,545) $ | (1,806,074) $ | (307,168) $ | (2,826,906) |
| Adjustments for items not affecting cash | | | | | |
| Depreciation of property, plant and equipment | | 1,901,635 | 2,659,817 | 3,584,018 | 5,118,635 |
| Depreciation of investment property | | 188,381 | 62,058 | 376,761 | 191,051 |
| Depreciation of intangible assets | | 8,098 | 39,762 | 58,852 | 79,524 |
| Employee benefits | | 172,375 | 45,626 | 309,332 | (14,176) |
| Interest on investments | | - | (18,839) | | (25,513) |
| Amortization of bond agency fees | | 15,911 | 15,924 | 31,821 | 31,849 |
| Gain on disposal of property, plant and equipment | | | (9,524) | | (10,151) |
| Foreign exchange (gain) loss | | (96,119) | (18,448) | (65,033) | 104,958 |
| | | 1,682,736 | 970,302 | 3,988,583 | 2,649,271 |
| Changes in non-cash working capital items | | | | | |
| Trade and other receivables | | (209,876) | 859,207 | (163,332) | 1,490,042 |
| Prepaid expenses | | 186,346 | 135,331 | 177,453 | 222,214 |
| Trade and other payables | | (1,703,893) | (2,366,589) | (820,300) | (1,175,358) |
| Holdbacks payable | | 7,586 | | 18,305 | (992,116) |
| Deferred revenue | | 427,073 | (189,047) | 709,949 | 429,217 |
| | | (1,292,764) | (1,561,098) | (77,925) | (26,001) |
| **Net cash provided by operating activities** | | 389,972 | (590,796) | 3,910,658 | 2,623,270 |
| **Cash Flows from investing activities** | | | | | |
| Purchase of property, plant and equipment | | (97,104) | (446,201) | (451,906) | (1,427,501) |
| Purchase of intangible assets | | | | (6,846) | |
| Proceeds on disposal of property, plant and equipment | | | 9,524 | | 10,151 |
| Investments | | | | | |
| Investments purchased | | (12,788) | | (25,718) | (12,373) |
| Restricted assets | | | | | |
| Investments purchased | | (45,241) | (47,425) | (491,744) | (94,615) |
| **Net cash used in investing activities** | | (155,133) | (484,102) | (976,214) | (1,524,338) |
| **Cash Flows from financing activities** | | | | | |
| Cash repayment from bank loan - current portion | | 3,480 | 17,697 | 6,682 | 21,497 |
| Cash repayment of bank loan | | (99,494) | (110,377) | (198,079) | (205,760) |
| Cash repayment of bonds payable - current portion | | 48,902 | 51,887 | 48,902 | 51,887 |
| Cash repayment of bonds payable | | (1,757,491) | (1,639,094) | (1,773,401) | (1,670,943) |
| **Net cash used in financing activities** | | (1,804,603) | (1,679,887) | (1,915,896) | (1,803,319) |
| **Foreign exchange loss on cash held in foreign currency** | | 96,119 | 18,448 | 65,033 | (104,958) |
| **(Decrease) Increase in cash during the period** | | (1,473,645) | (2,736,337) | 1,083,581 | (809,345) |
| Cash, beginning of period | | 11,872,080 | 9,914,682 | 9,314,854 | 7,987,690 |
| Cash, end of period | $ | 10,398,435 $ | 7,178,345 $ | 10,398,435 $ | 7,178,345 |

The accompanying notes form an integral part of the interim unaudited financial statements.

## 4.5 Selected Notes to the Interim Unaudited Condensed Financial Statements

The interim unaudited condensed financial statements should be read in conjunction with BWBC's fiscal 2012 annual report and with the narrative discussion included in this quarterly financial report.

### 1. Basis of Preparation

This quarterly financial report has been prepared in accordance with the requirements of IFRS, the Financial Administration Act and the Standard on Quarterly Financial Reports for Crown Corporations issued by the Treasury Board Secretariat.

### 2. Summary of Significant Accounting Policies

#### a) Financial Instruments

Financial assets or liabilities are measured at fair value on initial recognition, including transaction costs. The measurement of financial instruments in subsequent periods depends on their classification. The classification of BWBC's financial instruments is presented in the following table:

| Categories | Financial Instruments |
|---|---|
| Financial assets held-to-maturity | Investments<br>Restricted assets |
| Loans and receivables | Trade and other receivables<br>Cash |
| Financial liabilities measured at amortized cost | Trade and other payables<br>Holdbacks payable<br>Bank loan payable<br>Bonds payable |

Investments and restricted assets are measured at amortized cost. Interest is recognized using the effective interest rate method and recognized in the Statement of Comprehensive Income. Investments are classified as non-current assets, except for those with maturities that are less than 12 months from the end of the reporting period, which are classified as current assets. Restricted assets are classified as non-current in accordance with the timing of their intended use.

Assets classified as loans and receivables are recorded at amortized cost using the effective interest rate method.

Other financial liabilities are measured at amortized cost using the effective interest method.

## 4.5 Selected Notes to the Interim Unaudited Condensed Financial Statements

**2. Summary of Significant Accounting Policies continued…**

**b) Impairment of Assets**

**i) Financial Assets**

An assessment is made at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the Statement of Comprehensive Income.

**ii) Non-Financial Assets**

Assets that are subject to depreciation are reviewed at each reporting date to determine whether there is an indication of impairment. If any such indication exists, the entity shall estimate the recoverable amount of the asset. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped into the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

**c) Property, Plant, Equipment, Investment Property, and Intangible Assets**

Property, plant and equipment is presented on the Statement of Financial Position as cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition or the construction of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to BWBC and the cost of the item can be measured reliably. Repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they occurred.

Land is not depreciated. Depreciation on other assets is calculated using the methods and estimated useful lives below.

## 4.5 Selected Notes to the Interim Unaudited Condensed Financial Statements

### 2. Summary of Significant Accounting Policies continued…

#### c) Property, Plant, Equipment, Investment Property, and Intangible Assets continued…

Depreciation rates based on the estimated useful life of an asset are as follows:

| | |
|---|---|
| Bridges and Truck Ramp | Straight-line for 50-75 years |
| Buildings | Straight-line 5-70 years<br>5%-20% Diminishing balance basis |
| Buildings - residential (including land) | No depreciation |
| Equipment | 10% Diminishing balance basis |
| Equipment - computer | Straight-line 5-10 years<br>10%-20% Diminishing balance basis |
| Property improvements | 10%-20% Diminishing balance basis |
| Vehicles and construction equipment | 20% Diminishing balance basis |
| Investment property | 5%-20% Diminishing balance basis<br>5-70 years straight-line |
| Intangible assets | Straight-line for 5 years |

Residual values and useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period, or more often if events or circumstances dictate.

**Property, Plant, and Equipment**

**i) Buildings**

Ten buildings and all of the old booths that were not built in BWBC's latest phase of the master capital plan have been identified for demolition in accordance with the master capital plan. Depreciation has been accelerated to depreciate the remaining net book value over the period of time through to the planned date of demolition.

**ii) Buildings – Residential**

No depreciation on buildings-residential is recorded. The total acquisition cost of the buildings- residential will be transferred to the land account when these buildings are demolished.

**iii) Construction-in-Process**

Construction in process is not depreciated. When projects are significantly completed and put in use, the costs are transferred to the appropriate asset account and depreciation is initiated.

**Intangible assets**

The costs of purchases of computer software that meet the definition of intangible assets and that are separable from an item of related hardware are capitalized separately and depreciated over their useful lives on a straight-line basis over five years.

## 4.5 Selected Notes to the Interim Unaudited Condensed Financial Statements

### 2. Summary of Significant Accounting Policies continued…

#### c) Property, Plant, Equipment, Investment Property, and Intangible Assets continued…

**Investment Property**

Investment property is property held to earn rental income. Investment property consists of property held under operating leases with tenants such as commercial customs brokers, private coffee shops, and a duty free store.

Properties which comprise a portion that is held to earn rental income or for capital appreciation and another portion held for use in the supply of services or for administrative purposes are accounted for separately as investment property and property, plant and equipment, respectively, if these portions could be sold separately or leased out separately under a finance lease.

Investment property is measured initially at cost and is subsequently accounted for under BWBC's accounting policy for property, plant and equipment.

#### d) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. BWBC's definition of a qualifying asset is any asset that costs over $1 million and takes over a year to be substantially ready for intended use or sale.

When general borrowings are incurred for the development of a qualifying asset, the capitalization rate applied to the resulting figure is the weighted average of the borrowing rates incurred.

#### e) Revenue Recognition

***Toll and services*** revenues are recognized and recorded at the time the tolls are collected when the vehicles pass through the toll lanes. Payments received in U.S. dollars are translated into Canadian dollars based on daily exchange rates.

***Facility rentals*** revenues are recognized and recorded in the periods in which they are earned. These revenues include lease payments received from tenants such as commercial custom brokers, private coffee shops, and a duty free store.

***Currency exchange department*** revenues are recorded and recognized at the time the currency exchange transaction is completed. Payments received in U.S. dollars are translated into Canadian dollars based on daily exchange rates.

***Interest*** is recognized and recorded in the period in which it is earned. The primary component of revenue in this category is bond interest.

## 4.5 Selected Notes to the Interim Unaudited Condensed Financial Statements

### 2. Summary of Significant Accounting Policies continued...

#### e) Revenue Recognition continued...

***Deferred revenues*** are comprised of tolls paid in advance by passenger vehicle users and commercial trucking companies. Revenue is recognized at the time the vehicles pass through the toll lanes. Payments received in U.S. dollars are translated into Canadian dollars based on daily exchange rates.

#### f) Foreign Currency Translation

The functional and presentation currency of BWBC is the Canadian dollar. Foreign currency accounts are translated to Canadian dollars as follows:

At the transaction date, each asset, liability, revenue or expense is translated through the use of the exchange rate in effect at that date. At the year-end date, monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars by using the exchange rate in effect at that date and the resulting foreign exchange gains and losses are included in the Statement of Comprehensive Income in the current period.

#### g) Employee Benefits

BWBC provides post-retirement benefits including health care, dental care, employee assistance, and life insurance to eligible employees and their dependents upon meeting certain requirements. The obligation and the cost of these benefits are determined on an actuarial basis using the projected unit credit method prorated on service and management's best estimate assumptions. The discount rate used to determine the accrued benefit obligation is based on market rates for non-current high quality bonds. The measurement date is August 31st annually.

The net cost consists of the actuarially determined benefits for the current year's service, imputed interest on projected obligations and the amortization of actuarial gains or losses over the expected average remaining service life. Actuarial gains or losses are amortized over the employees' average remaining service life (16 years; 2012 - 16 years) only if the net actuarial gain or loss at the beginning of the year is in excess of 10% of the accrued benefit obligation at that date. These benefits are not pre-funded, resulting in a deficit equal to the accrued liability benefit obligation.

BWBC also provides defined contribution pension benefits to its employees. BWBC's contributions reflect the full benefit cost of the employer and they are charged to operations during the year in which the services are rendered.

#### h) Leases

*As lessor*, when assets are leased out under an operating lease, the asset is included in the Statement of financial position within property, plant and equipment and investment property. Leased assets include all of the investment property as disclosed in note 7 of the yearend 2012 financial statements and buildings – residential as disclosed in note 7 of the yearend 2012 financial statements.

## 4.5 Selected Notes to the Interim Unaudited Condensed Financial Statements

**2. Summary of Significant Accounting Policies continued...**

**i) Federal, Provincial and Municipal Government Assistance**

Federal, provincial and municipal government assistance is recorded as a reduction of the cost of the asset acquired when there is a reasonable assurance that the requirements for the approved grants are met.

**j) Critical Accounting Estimates**

The preparation of financial statements in accordance with IFRS requires management to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the year. Actual results could differ significantly from management's best estimates as additional information becomes available in the future.

The following are estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

i) Useful life expectancy predictions for investment property, intangible assets and property, plant and equipment.

ii) Estimates used in determining post-retirement defined benefit obligations. Additional information relating to employee-related liabilities is disclosed in note 11 of the yearend 2012 financial statements.

iii) Valuation of Investment property to fair value.

**k) Critical Accounting Judgments**

The preparation of financial statements in accordance with IFRS requires management to make judgements that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the year. Actual results could differ significantly from management's best estimates as additional information becomes available in the future.

The following are judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

i) Classification of investments as held-to-maturity.

ii) Degree of componentization for buildings.

iii) Classification between property, plant and equipment to investment property.

iv) Classification of leases as finance or operating.

## 4.5 Selected Notes to the Interim Unaudited Condensed Financial Statements

### 2. Summary of Significant Accounting Policies continued…

#### l) Contingencies and Provisions

In the normal course of its operations, BWBC becomes involved in various legal actions. Some of these potential liabilities may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is probable, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded in BWBC's financial statements.

### 3. Subsequent Events

Subsequent to the end of the second quarter, the Board of Directors implemented a restructuring plan aimed at streamlining operations. This was done with the knowledge that the CEO of BWBC was retiring at the same time; however, the Board felt it was important to move forward with its plan. As part of this restructuring, some terminations occurred. An estimate of total termination costs is not determinable at this time.